



## **FEDERAL RESERVE SYSTEM**

### **Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB**

**AGENCY:** Board of Governors of the Federal Reserve System

**SUMMARY:** The Board of Governors of the Federal Reserve System (Board or Federal Reserve) is adopting a proposal to revise, with extension for three years, the Capital Assessments and Stress Testing information collection (FR Y-14A/Q/M). The revisions are effective as of December 31, 2016, and December 31, 2017.

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act (PRA), to approve of and assign OMB numbers to collection of information requests and requirements conducted or sponsored by the Board. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the PRA Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB number.

**FOR FURTHER INFORMATION CONTACT:** Federal Reserve Board Clearance Officer – Nuha Elmaghrabi – Office of the Chief Data Officer, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202) 452-3884. Telecommunications Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551.

OMB Desk Officer – Shagufta Ahmed – Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street, NW, Washington, DC 20503.

### **SUPPLEMENTARY INFORMATION:**

**Final approval under OMB delegated authority of the extension for three years, with revision, of the following information collection:**

*Report title:* Capital Assessments and Stress Testing information collection.

*Agency form number:* FR Y-14A/Q/M.

*OMB control number:* 7100-0341.

*Frequency:* Annually, semi-annually, quarterly, and monthly.

*Effective Dates:* December 31, 2016, or December 31, 2017.

*Respondent type:* The respondent panel consists of any top-tier bank holding company (BHC) or intermediate holding company (IHC) that has \$50 billion or more in total consolidated assets, as determined based on: (i) the average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128); or (ii) the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs, if the firm has not filed an FR Y-9C for each of the most recent four quarters. Reporting is required as of the first day of the quarter immediately following the quarter in which it meets this asset threshold, unless otherwise directed by the Board.

*Estimated annual reporting hours:* FR Y-14A: Summary, 77,454 hours; Macro Scenario, 2,418 hours; Operational Risk, 702 hours; Regulatory Capital Transitions, 897 hours; Regulatory Capital Instruments, 819 hours; Retail Repurchase Exposures, 1,560 hours; Business Plan Changes, 390 hours; and Adjusted capital plan submission, 500 hours. FR Y-14Q: Retail, 2,496 hours; Securities, 2,184 hours; Pre-provision net revenue (PPNR), 110,916 hours; Wholesale, 23,712 hours; Trading, 46,224 hours; Regulatory Capital Transitions, 3,588 hours; Regulatory Capital Instruments, 8,112 hours; Operational risk, 7,800 hours; Mortgage Servicing Rights (MSR) Valuation, 1,728 hours; Supplemental, 624 hours; Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,792 hours; Counterparty, 12,192 hours; and Balances, 2,496 hours; FR Y-14M: 1st lien mortgage, 228,660 hours; Home Equity, 197,760 hours; and Credit Card, 153,000 hours. FR Y-14 On-going automation revisions, 18,720 hours. FR Y-14 Attestation implementation, 14,400 hours; and On-going audit and review, 30,720 hours.

*Estimated average hours per response:* FR Y-14A: Summary, 993 hours; Macro Scenario, 31 hours; Operational Risk, 18 hours; Regulatory Capital Transitions, 23 hours; Regulatory Capital Instruments, 21 hours; Retail Repurchase Exposures, 20 hours; Business Plan Changes, 10 hours and Adjusted capital plan submission, 100 hours. FR Y-14Q: Retail, 16 hours; Securities, 14 hours; PPNR, 711 hours; Wholesale, 152 hours; Trading, 1,926 hours; Regulatory Capital Transitions, 23 hours; Regulatory Capital Instruments, 52 hours; Operational risk, 50 hours; MSR Valuation, 24 hours; Supplemental, 4 hours; Retail FVO/HFS, 16 hours; Counterparty, 508 hours; and Balances, 16 hours; FR Y-14M: 1st Lien Mortgage, 515 hours; Home Equity, 515 hours; and Credit Card, 510 hours. FR Y-14 On-Going automation revisions, 480 hours. FR Y-14 Attestation Implementation, 4,800 hours; and On-going audit and review, 2,560 hours.

*Number of respondents:* 39.

*Legal authorization and confidentiality:* The FR Y-14 series of reports are authorized by section 165 of the Dodd-Frank Act, which requires the Board to ensure that certain BHCs and nonbank financial companies supervised by the Board are subject to enhanced risk-based and leverage standards in order to mitigate risks to the financial stability of the United States (12 U.S.C. 5365). Additionally, section 5 of the Bank Holding Company Act authorizes the Board to issue regulations and conduct information collections with regard to the supervision of BHCs (12 U.S.C. 1844).

With regard to the CFO-level attestation requirement, which is intended to improve accountability and accuracy and heighten requirements for internal control, the Board has

provided sufficient description and justification to require such attestation from respondents, consistent with the aforementioned statutory authorities.

As these data are collected as part of the supervisory process, they are subject to confidential treatment under exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, commercial and financial information contained in these information collections may be exempt from disclosure under exemption 4 of FOIA (5 U.S.C. 552(b)(4)), if disclosure would likely have the effect of (1) impairing the government's ability to obtain the necessary information in the future, or (2) causing substantial harm to the competitive position of the respondent. Such exemptions would be made on a case-by-case basis.

*Abstract:* The data collected through the FR Y-14A/Q/M schedules provide the Board with the additional information to ensure that large BHCs have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The annual Comprehensive Capital Analysis and Review (CCAR) exercise also is complemented by other Board supervisory efforts aimed at enhancing the continued viability of large BHCs and IHCs, including continuous monitoring of BHCs' and IHCs' planning and management of liquidity and funding resources and regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. In order to fully evaluate the data submissions, the Board may conduct follow up discussions with or request responses to follow up questions from respondents, as needed.

The Capital Assessments and Stress Testing information collection consists of the FR Y-14A, Q, and M reports. The semi-annual FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.<sup>1</sup> The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, and trading assets, and pre-provision net revenue (PPNR) for the reporting period. The monthly FR Y-14M comprises three retail portfolio- and loan-level collections, and one detailed address matching collection to supplement two of the portfolio and loan-level collections.

*Current Actions:* On July 28, 2016, the Board published a notice in the Federal Register (81 FR 49653) requesting public comment for 60 days on the proposal to extend, with revision, the FR Y-14A/Q/M. The Board proposed revisions to general FR Y-14 requirements and several schedules of the FR Y-14A/Q/M reports. For reports as-of December 31, 2017, the proposed changes included requiring that U.S. IHCs that are part of the Large Institution Supervision Coordinating Committee (LISCC) framework ("LISCC U.S. IHCs") attest to the material correctness and conformance to instructions of, and internal controls around, the data reported on the FR Y-14A/Q/M reports.<sup>2</sup> For reports as-of December 31, 2016, the revisions would add a

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<sup>1</sup> BHCs that must re-submit their capital plan generally also must provide a revised FR Y-14A in connection with their resubmission.

<sup>2</sup> Further information regarding the LISCC designation is available on the Board's public website: <http://www.federalreserve.gov/bankinfo/large-institution-supervision.htm>

requirement for BHCs and IHCs electing to undertake planned capital adjustments or incremental capital distribution requests to provide updated submissions of the FR Y-14A Schedule A (Summary - Capital) and Schedule C (Regulatory Capital Instruments, RCI) reflecting these adjustments (as detailed below). Finally, the revisions would update the FR Y-14A, Schedule A.1.d. (Summary - Capital) to collect items related to the supplementary leverage ratio (SLR), remove and add sub-schedules to the FR Y-14A Schedule E (Operational Risk) to align with applicable guidance, add one item to Schedule A.5 (Summary - Counterparty), and modify items on the FR Y-14A/Q/M reports to address inconsistencies across schedules and ensure the collection of accurate information.

The FR Y-14A Schedule A.1.d. (Summary - Capital) would be revised for December 31, 2016, to (1) add certain items used to calculate the SLR in alignment with the Board's extension of the initial application of the SLR requirement in the capital plan rule;<sup>3</sup> (2) modify two items; and (3) remove one item. In addition, one item to capture Other Counterparty Losses would be added to Schedule A.5 (Summary - Counterparty) effective December 31, 2016. Finally, Schedule E (Operational Risk) would be revised for December 31, 2016, to (1) remove sub-schedule E.1, BHC Operational Risk Historical Capital, (2) add two new sub-schedules: E.2, Material Risk Identification and E.3, Operational Risk Scenarios, and (3) update outdated methodologies and references.

The FR Y-14Q (quarterly collection) would be revised for December 31, 2016, to add a new column to Schedule B (Securities) to collect the price of the security as a percent of par to enhance supervisory modeling.

Finally, the FR Y-14M (monthly collection) would be revised for December 31, 2016, to modify the definition of Gross Charge-Off Amount on Schedule D (Credit Cards) in order to ensure proper reporting across institutions.

The comment period for this notice expired on September 26, 2016. The Federal Reserve received three comment letters addressing the proposed changes: one from the Financial Services Roundtable, one from The Clearing House, and one from the Federal Advisory Council. Commenters requested clarification of the instructions, forms, or general requirements for proposed items, in particular the operational risk modifications to the FR Y-14A, Schedule E.2 and E.3. The Federal Reserve also received general comments regarding (1) the frequency of changes and stability of the collection, (2) timing of release of technical instructions, and (3) estimates of reporting burden.

No comments were received specifically related to the modifications to the FR Y-14A Schedule A.5, FR Y-14Q Schedule B, or FR Y-14M Schedule D. Therefore the Federal Reserve will proceed with the aforementioned changes effective December 31, 2016. Furthermore, no comments were received on the proposed application of attestation to LISCC US IHCs. The Federal Reserve will apply the attestation requirement to LISCC US IHCs effective December 31, 2017. The Federal Reserve will adopt the remaining reporting requirements as proposed, with revisions in response to comment, as outlined below.

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<sup>3</sup> See 12 CFR 225.8(c)(3), 12 CFR 252.53(b)(3).

The following section includes a detailed discussion of aspects of the proposed FR Y-14 collection for which the Federal Reserve received substantive comments and an evaluation of, and responses to the comments received. Where appropriate, responses to these comments and technical matters are also addressed in the attached draft FR Y-14A/Q/M reporting forms and instructions.

## **Detailed Discussion of Public Comments:**

### **A. General Comments**

In general, commenters expressed concerns with the timing of implementing changes and the frequency of changes to the FR Y-14 series of reports. Two commenters indicated that additional time before the implementation of changes would be needed to allow for the development of internal processes and procedures, and integration of changes, and to materially improve the FR Y-14 data collection. Specifically, consistent with previously submitted comments, the Financial Services Roundtable requested a minimum of six months between the finalization of all reporting and technical requirements and the effective date, and a reduction in the frequency of changes. Both the Financial Services Roundtable and the Clearing House requested earlier publication of technical instructions and the ability to address clarifying questions before adoption of any final rule or the effective date of the changes. Both organizations expressed their willingness to continue to work with the Federal Reserve on addressing these issues. Finally, the Federal Advisory Council encouraged stability in the reporting requirements as continued iterations and modifications necessitate the utilization of manual processes to meet filing deadlines.

As previously indicated, the Federal Reserve recognizes the challenges with implementing changes in a timely and controlled manner, especially when the changes are finalized close to the effective date.<sup>4</sup> The Federal Reserve continues to weigh the need to collect additional information or benefits of enhancing the collection in light of the proposed effective date with the objective of providing as much time as is feasible in advance of implementation. The Federal Reserve has engaged the industry in ongoing dialogue regarding several of the specific recommendations contained in these letters and continues to assess these recommendations. In response to these comments, the Federal Reserve will revisit these discussions and consider additional ways to further engage the industry throughout the process in order to improve the transparency and clarity surrounding proposed changes.

In regards to the proposed changes contained in this notice, the Federal Reserve notes that the changes related to collecting components of SLR on the FR Y-14A Schedule A (Summary – Capital) align with related changes to the rule and allow for the incorporation of regulatory elements into the stress test as required. The inclusion of the requirement to submit certain FR Y-14 schedules to collect information on adjustments to planned capital actions and incremental capital distribution from firms that have elected to make such adjustments formalizes the process and format by which firms undertaking such actions would be providing the information. It is expected, therefore, that firms could leverage existing processes and controls for collecting and reporting this information given that regardless of the collection method, this information would

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<sup>4</sup> See, e.g., 79 Federal Register 59264.

be provided. Similarly, the information collected on proposed FR Y-14A, Schedules E.2 and E.3, would otherwise be provided as part of the supporting documentation submitted by a firm subject to SR Letter 15-18. Furthermore, the Federal Reserve has engaged the industry regarding the expectations outlined in SR Letter 15-18, and the requirements remain largely the same as proposed. Therefore, the Federal Reserve will not delay the implementation of these proposed changes given they are consistent with recent supervisory guidance or replace collections of the same or similar information through other methods or processes.

Other changes with a December 31, 2016, implementation date are clarifying in nature, streamline the instructions, address industry feedback, or remove information. These include the remaining changes to the FR Y-14A, Schedule A.1.d (Summary – Capital), the changes to the FR Y-14A, Schedule A.6 (Ops Risk) which align with updated methodology, the elimination of the FR Y-14A, Schedule E.1, and the definitional change to the FR Y-14M, Schedule D (Credit Cards). Given these changes will reduce burden and address reporting issues to alleviate confusion and inconsistent reporting for the CCAR cycle and do not involve the collection of new information, these changes will be implemented with a December 31, 2016, effective date.

While the collection of other losses on the FR Y-14A, Schedule A.5 (Summary – Counterparty) results in the collection of additional information for which internal processes and controls need to be developed, the Federal Reserve reiterates that this information was previously collected. Draft forms and instructions were provided with the publication of the initial notice and remain the same as proposed. No comments were received specifically regarding this change, therefore the Federal Reserve will implement this change as proposed.

Finally, the addition of the column for “Price” on the FR Y-14Q, Schedule B (Securities) addresses inconsistencies in reporting identified in prior reporting periods. As noted in the proposal, the data currently collected on the FR Y-14 leaves data gaps that can result in outdated information and ultimately reduced accuracy of modeling. While the Federal Reserve understands that the collection of new information close to the effective date results in process challenges, delaying the collection of price information could result in the need for resubmissions in the short term. The Federal Reserve indicated in the initial notice that they understood these data to be readily available on the as of date, and no comments were received specifically indicating challenges with collecting the information necessary for this proposed change. Therefore, the Federal Reserve will implement this change as proposed.

In response to the Federal Reserve’s solicitation for feedback regarding burden associated with the FR Y-14A/Q/M, the Financial Services Roundtable noted that dialogue regarding the estimates of burden associated with the FR Y-14 collection with Federal Reserve staff is ongoing. The Federal Reserve regularly reviews burden estimates and discussions with industry groups, including the Financial Services Roundtable, regarding FR Y-14 burden are ongoing.

## **B. Schedule Specific Comments**

### **FR Y-14A**

#### ***Schedule A.1.d. (Capital)***

The Federal Reserve received two requests for clarification related to the proposed modifications requiring firms to estimate the SLR for the projection horizon beginning January 1, 2018, for baseline and stress scenarios, in accordance with revisions to the capital plan and stress test rules, and report these ratios on Schedule A.1.d. The requests related to the application of this requirement to both BHCs and IHCs.

Specifically, one industry group commented that the inclusion of this information on the FR Y-14A, Schedule A (Summary) suggests that the Federal Reserve will require institutions' projections to remain above the regulatory minimum on a post-stress basis beginning January 1, 2018, and going forward in order to quantitatively pass the Comprehensive Capital Analysis and Review (CCAR), implying an accelerated effective date from January 1, 2018, to December 31, 2016. Accordingly, the commenter asked the Federal Reserve to clarify that information regarding the SLR would be collected for informational purposes only on the FR Y-14A Summary Schedule as of December 31, 2016, and that banks would not be expected to meet the post stress supplementary minimum for purposes of the 2017 CCAR. The commenter also asked the Federal Reserve to confirm this would be informational and on a best efforts basis for IHCs of FBOs and that they would not be expected to meet leverage or supplementary leverage post stress minima for CCAR 2017.

Bank holding companies (BHCs) must maintain capital above each minimum regulatory capital ratio on a pro forma basis throughout the planning horizon. The capital plan rule defines minimum regulatory capital ratio to include the SLR.<sup>5</sup> Under the 2015 amendment to the capital plan rule, the Board delayed the incorporation of the SLR requirement in the capital plan and stress test rules for one year, until 2017.<sup>6</sup> Accordingly, for the 2017 capital plan and stress test cycle, BHCs subject to the SLR will be required to maintain capital above a minimum three (3) percent SLR on a pro forma basis for quarters of the planning horizon beginning January 1, 2018, which corresponds with the fifth projection quarter of the CCAR 2017 exercise.

Under the capital plan rule and stress test rules, all regulatory capital ratios are calculated using the definitions of capital, risk-weighted assets, and total assets that are in effect during a particular quarter of a planning horizon.<sup>7</sup> For example, the Federal Reserve required firms to meet minimum common equity tier 1 ratio requirements, which came into effect on January 1, 2015, beginning in the fourth projection quarter of CCAR 2014.

Similarly, both the leverage and supplementary leverage requirements become effective for the IHCs of foreign banking organizations (FBOs) on January 1, 2018. In CCAR 2017, beginning with quarters that correspond to dates after January 1, 2018 (i.e. the fifth quarter of the CCAR 2017 planning horizon), each U.S. IHC will be required to calculate the tier 1 leverage ratio and the SLR and demonstrate in the IHC's own baseline and stress projections that it can maintain capital above a minimum four (4) percent tier 1 leverage ratio and three (3) percent SLR. Notably, however, for an IHC designated by an FBO that was not a BHC previously subject to CCAR, the IHC will not be subject to the supervisory stress test or public objection to its 2017 capital plan. For CCAR 2018, all IHCs will be subject to all aspects of CCAR, including the

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<sup>5</sup> See 12 CFR 225.8(d)(8)

<sup>6</sup> See 80 FR 75419, 75421 (December 2, 2015), 12 CFR 225.8(c)(3))

<sup>7</sup> See Comprehensive Capital Analysis and Review 2016 Summary Instructions (January 2016), p. 3

supervisory stress test, public disclosure of results, and public notice of the Federal Reserve's action on each IHCs capital plan. In CCAR 2018, leverage requirements will be in effect for all quarters of the planning horizon.

Given the alignment with the capital plan and stress testing rules as outlined above, the modifications to the FR Y-14A, Schedule A.1.d (Summary – Capital), will be implemented as proposed for reports submitted as of December 31, 2016. No further comments were received regarding the other proposed changes to the FR Y-14A, Schedule A.1.d (Summary - Capital) and these changes will also be implemented as proposed.

#### ***Schedule A.6 (BHC Operational Risk Scenario Inputs and Projections)***

Two commenters requested clarification regarding the change of the column heading from “Unit of Measure” to “Risk Segment” in the FR Y-14A, Schedule A.6 and associated instructions. First, one commenter asked whether there was an expectation that respondents use classifications other than Basel event types in the reporting of the risk segment. The Federal Reserve clarifies that large and complex firms should use risk segments that best describe the risks to which they are exposed. Classifications other than the current Units of Measure are acceptable and in some cases may be preferable to more clearly link the methodologies used to measure those risks for both day-to-day business operations and to estimate post-stress capital needs.

Second, the other commenter inquired as to whether the change in heading would also result in a change in the definition of the reported column. Specifically, the commenter asked whether (i) the definition of Risk Segment to be used is the same definition for Risk Segment contained in the prior instructions (i.e., "the BHC's internal classification of operational risk into granular risk categories used for risk management and operational risk loss projection purposes"), (ii) the prior definition of Unit of Measure should be applied (i.e., "the level at which the BHC's quantification model generates a separate distribution for estimating potential operational losses"), or (iii) an alternate definition of Risk Segment should be applied. The Federal Reserve confirms that the definition of Risk Segment to be used is the same definition for Risk Segment contained in the prior instructions and as indicated in the draft instructions associated with this notice (i.e., "the BHC's internal classification of operational risk into granular risk categories used for risk management and operational risk loss projection purposes"). Because this definition is already contained in the instructions, the change will be implemented as proposed.

#### ***Schedule C (RCI)***

Under the proposed revisions to the FR Y-14A, firms would be required to resubmit the FR Y-14A, Schedule C for incremental capital action requests at the time a firm seeks approval for or notifies the Federal Reserve of its intention to make additional capital distributions in the period between CCAR exercises. While the commenter expressed support for the Federal Reserve's objective of formalizing a standard process for firms to submit information regarding requests for additional capital distributions in the period between CCAR exercises, the commenter requested that the Federal Reserve institute a threshold, below which firms would not need to resubmit the FR Y-14A, Schedule C (RCI) as part of the request. The commenter indicated that this would enable firms to make small incremental distributions without requiring the internal

processes and control structure otherwise needed to resubmit the template outside of the annual CCAR process.

The Federal Reserve reiterates that firms may not exceed the distributions included in their capital plan on a gross or net basis. As such, a firm seeking to make incremental capital distributions must notify the Federal Reserve (in the case of a de minimis incremental distribution) or request approval (in the case of incremental distributions that do not qualify for the de minimis exception for well capitalized firms). In any case where a firm seeks to make incremental distributions it is important that the Federal Reserve have up to date information on the firm's capital plan. As such, the Federal Reserve does not believe such a threshold is appropriate and will implement the requirement as proposed.

### ***Schedules E (Operational Risk)***

Several of the changes proposed to the FR Y-14A, Schedule E (Operational Risk) were consistent with the guidance and expectations contained in recent supervisory letters, notably SR Letter 15-18. SR Letter 15-18 sets out the differences in expectations for U.S. bank holding companies and intermediate holding companies of foreign banking organizations that are either: (i) subject to the Federal Reserve's Large Institution Supervision Coordinating Committee (LISCC) framework or (ii) have total consolidated assets of \$250 billion or more or consolidated total on-balance sheet foreign exposure of \$10 billion or more ("Large and Complex firms"). Two commenters requested clarification as to whether the proposed changes to the FR Y-14A, Schedule E were intended to apply to all BHCs and IHCs, or only to those institutions subject to SR Letter 15-18. The Federal Reserve confirms that the additional sub-schedules proposed for the FR Y-14A Schedule E would apply only to BHCs and IHCs subject to SR Letter 15-18, in alignment with the guidance outlined therein; however, notes that the elimination of Schedule E.1 would apply for all firms.

The Federal Reserve proposed adding a new sub-schedule, Schedule E.2 Material Risk Identification, to capture material operational risks included in a firm's projections. Two commenters requested additional clarification on the information to be captured in this sub-schedule. One commenter requested guidance regarding the definition of "material" operational risks, as the subjective application of materiality may lead to varying definitions across organizations. The commenter also questioned at what point organizations not just include Basel Loss Event Type I as their material operational risks and if additional guidance would be provided on quantifying risks that do not have a one-to-one (1:1) match of risk to dollars (e.g., those implicitly captured in the estimates through historical losses experienced).

The Federal Reserve expects large and complex firms to maintain capital planning processes that capture or otherwise consider the full range of material risks facing the firm. A firm should identify how and where its material risks are accounted for within the capital planning process. The Federal Reserve expects a firm to seek input from multiple stakeholders across the organization (for example, senior management, finance and risk professionals, front office and line-of-business leadership) in identifying its material risks. Materiality thresholds should be established at multiple levels of the BHC and include: (1) easily quantifiable risks, and (2) risks that are more difficult to quantify. The specifics of the risk identification process will differ across firms given differences in organizational structure, business activities, and size and

complexity of operations. However, the risk identification process at all firms subject to this guidance should be dynamic, inclusive, and comprehensive, and drive the firm's capital adequacy analysis. A firm should: (1) evaluate material risks across the enterprise to ensure comprehensive risk capture on an ongoing basis; (2) establish a formal risk identification process and evaluate material risks at least quarterly; (3) actively monitor its material risks; and (4) use identified material risks to inform key aspects of the firm's capital planning, including the development of stress scenarios, the assessment of the adequacy of post-stress capital levels, and the appropriateness of potential capital actions in light of the firm's capital objectives.

Regarding risks that do not have a 1:1 match of risk to dollars, firms should have transparent and well-supported estimation approaches based on both quantitative analysis and expert judgment, and should not rely on unstable or unintuitive correlations to project operational losses. Scenario analysis should be a core component of the firm's operational loss projection approaches. Certain operational risks, particularly those most likely to give rise to large losses, often may not have measureable relationships to the overall scenario conditions. In addition, large operational loss events are often idiosyncratic, limiting the relevance of historical data.

The other commenter suggested that rather than create a new template to capture material operational risks that are included in a firm's risk projections, as well as those excluded from the firm's risk projections, the Federal Reserve continues to refer to the CCAR supporting documentation for a discussion of operational risks provided that the supporting documentation conforms with all Federal Reserve requirements. By collecting this information in a structured way via the new FR Y-14 sub-schedule, the Federal Reserve expects to ensure a clear and consistent reporting of material risks, including a transparent reconciliation of which risks are included or excluded from the projections. The supporting documentation should, among other things, provide a description of the process(es) employed to identify, select and/or exclude risks from the reported projections.

Several comments were received regarding the draft forms and instructions associated with the proposed FR Y-14A, Schedule E.2. First, commenters requested additional clarification as to the Federal Reserve's expectations with respect to the reporting of Material Risks in Schedule E.2, particularly as to the intended definitions of "Risk Name", "Risk Segment" and "BHC Stress Projection Amount" in this schedule.

As indicated in the draft instructions and consistent with other instructions for this schedule, the Federal Reserve does not intend to provide specific definition for these terms. Each firm uses its unique methodology for each identified material risk as well as its risk segment. Risk segmentation and resulting material risks vary based on business mix, risk profile and risk drivers. Therefore the Federal Reserve does not expect a standard taxonomy for reporting purposes. Risk Name is the firm's taxonomy for a given material risk. Risk Segment is the firm's chosen taxonomy for risk segmentation/risk categorization.

Second, in order to better conform the items as proposed in the draft forms and consistent with the item description, the commenter requested the addition of "Operational" before "Risk(s)" to the (i) title of the schedule, (ii) header of the first column in the schedule, and (iii) descriptions below the aforementioned header on Schedule E.2. Consistent with the request regarding the insertion of the word "Operational" into the appropriate locations on Schedule E.2, the

commenter also suggested the addition of the words "Operational Risk" to each of the names of the columns in Schedule E.3, as well as to the lines for "percentage of the loss estimates" and "total number of scenarios." The forms will be updated as suggested.

In regards to Schedule E.3, the commenter requested the addition of the word "9-Qtr Projection" after "BHC Baseline" and "BHC Stress" to clarify that the total nine quarter projections are the information being sought on this schedule. To further clarify the column titles in schedule E.3, "Nine-Quarter Loss Projection" will be added after "BHC Base Line" and after "BHC Stress."

Finally, one commenter requested additional clarity surrounding expectations for the information to be reported under the column "Methodology for applying scenario results" on the proposed FR Y-14A, Schedule E.3. The Federal Reserve clarifies that the intent of this column is for the firm to note the name of methodology used to quantify losses using the Scenario approach. For example, quantitative model, historical averages, estimate based on expert judgment, etc.

The changes to the FR Y-14A, Schedule E (Operational Risk) will be implemented as of December 31, 2016, with the revisions noted above.

## **FR Y-14Q**

### ***Schedule H.1 (Corporate Loan)***

In addition to the comments specific to the proposed changes contained in the initial notice, the Federal Reserve also received two comments regarding the reporting of syndicated pipelines and disposition activity on Schedule H.1 (Wholesale – Corporate), to which no changes were proposed. The commenter inquired as to when the Federal Reserve would provide draft and/or final technical instructions for the third quarter 2016 reporting requirements on Syndicated Finance Pipeline Reporting and Disposition Activity. Technical instructions for the third quarter were posted to the public website on October 17, 2016.

The commenter also questioned whether the Federal Reserve would provide an interim exemption on having to provide responses to edit check exceptions for these new reporting requirements similar to what was done for the 2Q 2016 Fronting Exposure edit checks, which did not require responses until 4Q 2016. The Federal Reserve emphasizes the value of edit checks for both firms and the Federal Reserve in ensuring data quality, particularly for newly reported items. The final notice adopting these changes delayed the implementation of these requirements an additional quarter (to be effective as of September 30, 2016), in order to allow firms additional time to prepare for the reporting of these exposures.<sup>8</sup> Therefore, exemptions to edit checks responses on these reporting requirements are not planned at this time.

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<sup>8</sup> See 81 Federal Register 3412

Board of Governors of the Federal Reserve System, December 19, 2016.

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Robert deV. Frierson  
Secretary of the Board.

Billing Code 6210-01-P

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